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JAPAN MOVES TO DEREGULATE TRUCKING INDUSTRY

Summary

Japan acted to deregulate the trucking industry last December, the first substantial revision affecting this freight transport mode since 1951. Both domestic and foreign shippers' needs for flexible and speedy delivery of cargo were going unmet under the old legislation, according to some analysts, who contended that too many regulations worked to restrict market entry and operating and pricing flexibility. The new laws, which possibly will go into effect in December 1990, will relax current regulations and enable motor carriers to provide integrated services combining air, rail, water and truck transport. Provided that deregulation is carried out according to the letter of the law, the once totally regulated Japanese trucking industry is likely to experience the same fierce competition that has characterized its American counterpart over the last 10 years. However, since the new legislation contains safeguards that allow the government to limit competition if it sees fit, Tokyo's perception of future transportation goals will determine how much regulatory freedom motor carriers really have.

Freight Transport Market

Domestic cargo traffic grew at a rapid annual rate of 8.4 percent in the 10 years preceding the first oil crisis in 1973. The oil crisis suddenly changed market conditions as well as the market itself. The economic slowdown of the mid-1970s trimmed freight traffic. That period also witnessed the first signs of a shift in the manufacturing sector from heavy industry to lighter high technology products. Freight volume rebounded in the late 1970s, but that

turnaround was cut short by the 1979 oil crisis and the 1980-82 economic slump. Even the return of moderate economic growth in 1983 did not stop the year-to-year drop in the amount of cargo handled. The freight transport market finally turned up in FY 1987, thanks to the start of what is now Japan's third-longest economic expansion of the postwar period. The following year a record volume of cargo was carried (see Table 1).

Table 1: Domestic Cargo by Mode of Transportation, FY 1970-FY 1988

(in millions of metric tons)

Fiscal Year	Truck	Water	Rail	Air	Total
1970	4,626	377	256	0.1	5,259
1975	4,393	452	184	0.2	5,030
1980	5,318	500	167	0.3	5,985
1981	5,231	479	152	0.4	5,861
1982	5,172	438	136	0.4	5,745
1983	5,123	438	121	0.4	5,683
1984	5,114	450	107	0.5	5,672
1985	5,048	452	99	0.5	5,600
1986	4,969	440	90	0.6	5,500
1987	5,046	462	83	0.7	5,592
1988	5,578	493	82	0.8	6,154

Source: Ministry of Transportation

The market shares held by the competing modes of freight transport were very stable in the 1980s except for the striking erosion of rail's share by trucking. This situation reflects the fact that motor carriers, water carriers and cargo airlines specialize in short, medium and long distances, respectively (see Table 2), limiting competition among them. Freight railroads, however, straddle the short- to medium-haul market. With construction of a nationwide highway system in the 1970s, trucking companies began to cut into the rail transport business. The privatization of the Japanese National Railway in April 1987 did not stop or reverse this trend because the main purpose of the JNR reform was to revitalize the passenger segment rather than freight transport.

Moreover, each mode of freight transport generally carries different types of cargo. Motor carriers transport food and fish products, textiles, consumer durables and nondurables and machinery. The main cargoes hauled by water are coal, cement and petroleum, while grains, chemicals and paper and pulp are moved by rail.

When freight traffic is presented on the basis of metric tons carried per kilometer rather than total volume hauled, the picture of a stagnating or a slow-growing motor carrier industry disappears. Table 3 indicates that the

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Table 2: Average Distance Covered by Freight Transport Mode, FY 1988

	(in kilometers)	
Truck	44.9	(24.9 miles)
Rail	285.1	(178.2 miles)
Water	431.3	(269.6 miles)
Air	906.6	(566.6 miles)

Source: Ministry of Transportation

Table 3: Truck Cargo, FY 1981-FY 1988

Fiscal Year	Volume (metric ton-kilometers)	Average Distance (kilometers)
1981	181.3	34.7
1982	188.7	36.3
1983	193.5	37.7
1984	200.8	39.3
1985	205.9	40.8
1986	216.1	43.5
1987	224.1	44.4
1988	243.8	44.9

Source: Ministry of Transportation

trucking business grew steadily from FY 1981 through FY 1986, with an average annual increase in weight per distance carried of 3.5 percent. This expansion stemmed from a rise in the average trip from 34.7 kilometers (about 21.5 miles) to 43.5 kilometers (about 27 miles), which worked out to a yearly gain of 4.6 percent. In FY 1988, moreover, the freight ton-kilometer figure for motor carriers jumped, thanks in large part to the boom in business investment and expanded public works spending.

In the opinion of Ministry of Transportation analysts the steadily rising ton-kilometer number in the 1980s reflected a watershed change in Japanese freight transport demand. By the latter part of the decade the movement of bulky, heavy materials from production sites to factories that predominated in the late 1960s and early 1970s had evolved to more shipments among factories and from factories to sales outlets (and from stores to homes) of increasing amounts of small, light products like semiconductors and appliances or small parcels in the 1980s. For example, the average lot of cargo carried by all modes of freight transport dropped from 3.8 metric tons per trip in 1980 to 2.63 metric tons in 1985, according to MOT. Small-scale, high-frequency and fast deliveries became the distinctive characteristics of freight transport in the 1980s in Japan.

Structure of Trucking Industry

The Road Transportation Law (Douro Unsou Hou) and the Railway Express Enterprise Law (Tsuun Jigyo Hou) regulate the trucking industry. These laws divide motor carrier services into three main groups: regularly scheduled route services, specific area services and services associated with freight shipped by rail. At the time of the laws' passage JNR dominated the Japanese freight transport market; trucking services connected with rail shipments, including loading and unloading cargo at the railroad station, were called tsuun. The Railway Express Enterprise Law enacted in 1949 was designed to ensure a stable volume of business and steady revenues for small tsuun operators. To this end such motor carrier services were exempted from the Antimonopoly Law; price competition was nonexistent.

In 1951 the Road Transportation Law was passed with similar goals in mind for a newly emerging trucking industry independent of the railroad. This law divides trucking services into those related to specific routes and those connected with customer areas. In the first category are motor carriers that serve specific routes on regular timetables and that load various types of freight from different shippers. The motor carriers in the second category serve only one customer on a consignment basis in a designated area, usually at the prefectural level; freight transport is limited to that area. Route-related services and area-designated services are not considered to be in competition with each other since the 1951 legislation contained a clear-cut division of labor.

The number of companies in each of these market segments has varied little (see Table 4) because market entry is limited by law. Big motor carriers, those that field more than 100 trucks, had a 17.3 percent share of the route-related business in FY 1989. Because firms providing this type of freight transport need nationwide networks, the number of competitors is relatively small (329 in FY 1989).

Table 4: Route and Area Trucking Companies, FY 1985 and FY 1989

Number of Route Trucking Companies	Number of Trucks				
	1-10	11-50	51-100	Over 101	Total
FY 1985	134	114	39	60	347
FY 1989	130	104	38	57	329

Number of Area Trucking Companies	Number of Trucks				
	1-10	11-50	51-100	Over 101	Total
FY 1985	18,126	15,947	1,123	378	35,574
FY 1989	16,886	19,075	1,843	588	38,392

Source: Ministry of Transportation

Large companies were particularly well-suited in the 1980s for a new route service called takuhaibin, which rapidly increased (see Table 5). Small packages, lighter than 30 kilograms (66 pounds), are collected at neighborhood stores, such as liquor outlets, rice vendors, mom-and-pop shops and convenience stores, by route trucking companies on a daily basis. Takuhaibin operators use a simplified pricing system and promise next-day delivery; that limits the competition to big motor carriers with their extensive networks.

Table 5: Small Package Delivery, FY 1981-FY 1987

(in millions)

Fiscal Year	Number
1981	107
1982	174
1983	278
1984	385
1985	493
1986	612
1987	762

Source: Ministry of Transportation

In contrast with the route-related market segment, a huge number of motor carriers transport cargo in designated areas. Companies with between 1 and 50 trucks have accounted for 90 percent-plus of this business in recent years. Firms providing this type of freight transport do not need a nationwide network or a large fleet of vehicles since they serve only one business customer on a consignment basis in a limited area.

Table 6: Trucking Linked to Rail Transport (Tsuun), FY 1980-FY 1988

Fiscal Year	Number of Companies	Freight Loaded and Unloaded (metric tons)	Number Of Sole Tsuun Operators
1980	359	176.1	9
1981	335	160.8	10
1982	314	146.3	5
1983	303	134.0	3
1984	280	120.4	6
1985	288	116.5	5
1986	252	107.9	3
1987	270	107.7	3
1988	293	112.9	3

Source: Ministry of Transportation

Tsuun (truck-rail service) could qualify as an endangered species since rail freight traffic has declined so sharply. For example, the volume of freight loaded and unloaded dropped from 176.1 million metric tons in FY 1980 to 112.9 million tons in FY 1988, and the number of companies exclusively providing tsuun decreased from nine to three (see Table 6). Therefore, companies in this line of business have tried to diversify and get licenses for other types of motor carrier services.

The Law and The Reality

The Road Transportation Law and the Railway Express Enterprise Law have common structures. Both regulate market entry and require approval of motor carriers' pricing policies and operating plans. When a company applies to enter the trucking business, Ministry of Transportation regulators evaluate market conditions. If they decide the newcomer could cause a serious mismatch between supply and demand, the application is turned down. But if a company does receive operating authority, it is protected from the stiff price competition that characterizes the American trucking business because tariff rates that "will probably cause unfair competition with other companies" are prohibited by law. This rule and those regulating operations are exempted from the Antimonopoly Law.

Despite the attempt to protect small motor carriers, historical and structural changes in the freight transport market have worked against that motive. Faced with rapidly declining demand, tsuun companies have had to diversify to survive. With the exception of three of the current operators all have multiple licenses. For example, Nippon Express Co., Ltd., originally a tsuun company, has become Japan's biggest integrated freight carrier, providing both route and area trucking services as well as air and water transport and overnight package delivery. Moreover, the Transportation Ministry actually has given licenses to some newcomers despite market conditions.

Nowadays many route motor carriers also are licensed to provide area services. Therefore, big trucking companies are double-listed in the route and the area service section of Table 4. But this expanded competition also has worked in reverse. Threatened by the entry of big route motor carriers into the market serving local businesses, trucking companies operating under an area-designated license have demanded the right to perform services that historically could only be provided by route operators, such as handling cargo from multiple shippers. In short, motor carriers are scrambling to compete with each other across the board.

In another case of practice differing from the law, although tariff rates must be approved by MOT, motor carriers legally can charge prices that are 10 percent over or under the approved rates. Because of growing competition in the trucking industry, actual freight transport prices are believed to be 10 to 20 percent below the officially approved rates. Gradually recognizing this reality, the Transportation Ministry recently admitted that its attempt at tight regulation of motor carriers is outdated.

Integrated Freight Transport

In any country freight forwarders play a critical intermediary role between shippers and carriers. In particular, shippers requiring multiple modes of transportation often turn to freight forwarders for help. These companies

contract with whatever type of carrier is needed to move freight to its destination, and they assume responsibility for the delivery. The increase in international transportation has enhanced the importance of forwarders in integrating water/air, air/truck and water/truck transport. But in Japan the forwarding business is regulated by mode of transportation, making it sometimes difficult for forwarders for motor carriers, for example, to get a license to move freight by air or water. The Ministry of Transportation estimated the number of forwarders involved in trucking, water transport and air cargo as 14,977, 1,595 and 26, respectively, at the end of FY 1987.

The business community has complained about the regulatory treatment of freight forwarders. Keidanren (Japan Federation of Economic Organizations), a group representing the interests of big business, has pointed out the difficulties that forwarders face since they must obtain licenses for multiple modes of freight transport, each of which is regulated differently. Moreover, freight forwarders do not have the legal leeway to offer shippers a cost-saving package deal; the cost of integrated freight transport simply is the total of what each carrier charges for the service it provides. In late March 1988 Keidanren urged the government to overhaul the laws governing freight forwarding so that agents could provide lower-cost integrated service. The business organization also called for deregulation of the trucking industry.

Pressure for change also has come from foreign transportation companies, especially air cargo carriers and freight forwarders interested in doing business in Japan. In May 1985 Tokyo and Washington negotiated an interim air services agreement. Under that pact the U.S. government authorized Federal Express Corp. to begin small package express service to Japan. The start of FedEx operations in June 1988 introduced a new wrinkle to the Japanese freight transport market since the company not only handles transpacific shipments but also functions as a freight forwarder and delivers packages in Japan with its own fleet of vans. Worried that other foreign companies might follow FedEx, Japanese forwarders lobbied the government to deregulate their business to strengthen their competitive footing with potential overseas rivals.

These requests for deregulation from domestic and foreign businesses were debated by the Council on Transportation Policy, an advisory group to the minister of transportation, and the Provisional Council for the Promotion of Administrative Reform, an advisory group to the prime minister. Both councils considered how to deregulate Japan's freight transport market and reorganize the industry.

The New Rules

In March 1989 the Ministry of Transportation submitted to the Diet its proposal for two new laws. Passed in mid-December 1989 were the Freight Transportation by Motor Vehicle Law, which governs the trucking industry, and the General Freight Forwarding Law. The main points of the first law are as follows:

- The division between route and area trucking services has been eliminated. By permitting combined operations, the numerous motor carriers that have provided area trucking services in the past now will be able to load freight from multiple shippers.

• The licensing system regulating market entry based on supply and demand conditions has been scrapped, replaced by a permit system. To receive operating authority a motor carrier only must prove it is qualified to provide capable, safe service.

• The legislation contains a safeguard clause to cover periods of "excess competition." During those periods the minister of transportation has the right to suspend for a limited time the issuance of permits to newcomers, even if they are regarded as qualified.

• Significant changes in motor carriers' operating plans still will have to be approved by MOT regulators, although some minor modifications are exempt, like a change in the number of vehicles operated by a trucking company. These minor changes can be handled simply by notifying the ministry.

• Tariff rates no longer will require prior approval. Instead, motor carriers can notify the government of the prices they plan to charge shippers. If MOT determines that the rates are not fair, it can order trucking companies to change their prices within a limited time.

The law regulating freight forwarding addresses:

• Replacement of the licensing system for freight forwarders with a permit system, much like the revision for motor carriers; however, this law does not have a safeguard clause. The requirement that market entry be regulated according to supply and demand is repealed for air cargo forwarders and tsuun operators.

• Pricing, which will work on a notification system prior to an operation's start-up; MOT has the authority to require an agent to change prices if it feels they reflect unfair competition.

• Abolition of the Railway Express Enterprise Law.

The Ministry of Transportation is expected to take a long time to issue implementing regulations and rules as well as guidelines since these changes are the first since the Railway Express Enterprise Law was enacted in 1949 and the Road Transportation Law put in effect in 1951. Implementation may begin this December.

Conclusion

Keidanren commented in mid-July 1989, prior to the enactment of the new legislation, that it appreciated the proposed laws from the standpoint of deregulation and revitalization of the transportation industry. At the same time the business group expressed concern about the safeguard provision in the new trucking law and about MOT's authority to veto tariff rates and prices, saying these powers could distort the deregulation process if they are handled improperly by regulators.

Other unanswered questions also make judgment premature over whether the new laws promise real progress or not. For example, the freight forwarding legislation does not address the issue of integrated service. It still is unclear how integrated service, a top priority of shippers and forwarders alike, will

be provided in the future. Another concern is whether the potential for increased competition by domestic as well as foreign freight transporters will streamline part of Japan's distribution system, a matter of concern at home and abroad. Concerns such as these lead many analysts to say that the two new laws are a first step in the right direction. Whether this will be a big step or a small one depends on Ministry of Transportation regulators.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.